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SIPDIS

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TAGS: EFIN PREL AR BL BR PY EC VE UY  
SUBJECT: BANCO DEL SUR: MINISTERS AGREE ON DRAFT CHARTER,  
BUT MUCH WORK REMAINS

Classified By: DCM Robin Matthewman for reasons (b)  
and (d)

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SUMMARY  
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¶1. (C) SUMMARY: Ministers of finance from Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela met in Montevideo on April 25 for the fourth Banco del Sur (Bank of the South) ministerial meeting. Argentina did not participate in the meeting following the resignation of its Minister of Economy one day earlier. The other ministers developed a proposal for the bank's charter, but the draft still requires Argentine input, approval of the members' presidents, and ratification in their respective congresses. Minister of Finance Danilo Astori privately told us that he did not believe the Bank project to be useful and that Uruguay agreed to participate only so as not to be isolated. He considered it unlikely for the Bank to be approved, formed and start operating any time soon. END SUMMARY.

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THE CHARTER PROPOSAL SO FAR  
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¶2. (U) At the April 25 Ministerial, the six participants agreed on a proposal for the Banco del Sur charter that included an initial capitalization of USD 7 billion. Brazil, Argentina and Venezuela would contribute USD 2 billion each; Uruguay and Ecuador USD 400 million each; and Bolivia and Paraguay USD 100 million each. Capital would later be augmented to \$20 billion, with smaller countries allowed more time to complete their contributions. Ministers also agreed that large partners (Brazil, Argentina and Venezuela) would have access to credit up to four times their contribution, while smaller members could borrow up to eight times their contribution.

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NEXT STEPS  
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¶3. (SBU) While the Montevideo meeting was a step forward towards creating the bank championed by Venezuelan President Chavez and former Argentine President Kirchner, several key issues still need to be addressed before it is launched. Once the Government of Argentina has considered the draft charter, member countries will have to determine each country's voting power and the composition of the bank's Board. Such negotiations could be protracted since smaller partners, like Uruguay, will likely push for equal voting power while large ones will seek a vote proportional to capital invested. Once approved, the bank's charter will also need to be ratified by the seven member congresses. This is likely to be a lengthy process.

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URUGUAY IS NOT IN THE BANK OUT OF CONVICTION

¶4. (C) Minister of Finance Danilo Astori confided in a meeting with the DCM on May 2 that the formation of the bank would be "a very slow process" and that he liked it that way.

Uruguay had to join the bank because it could not remain the only country outside, he explained. Astori predicted that the Bank would run into many hurdles as each of the countries analyzed the proposed charter and their respective congresses considered it. He did not expect any progress in the near term. The Minister said the new bank would replicate the role of other international financial institutions like the Inter-American Development Bank and especially the Andean Development Corporation (CAF in Spanish). Uruguay is benefiting significantly from its participation in these banks.

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BACKGROUND: BANCO DEL SUR'S SLOW CONCEPTION

¶5. (SBU) Mercosur countries first discussed the creation of a regional development bank in a July 2006 ministerial meeting, as a means to deepening regional financial integration. The bank was championed by Venezuela and Argentina which both signed a memorandum of understanding in February 2007 to create it. Bolivia signed in March 2007 and Brazil, initially cool to the idea, signed in May 2007. In Uruguay, the debate to support Banco del Sur was part of a tough arm-wrestling between Minister of Finance Danilo Astori and former Minister of Foreign Affairs Reinaldo Gargano, who was extremely favorable to Venezuela. Uruguay, initially elected to participate as an observer, but later signed in June 2007.

The bank was formally launched --with no charter-- in December 2007 by seven South American presidents on the margins of Argentine President Cristina Fernandez' inauguration.

Baxter